

Don't Let Wind Turbine Claims Blow Over: How To Assess Recovery

Subrogation potential exists even when lightning fuels first-party claims

By [JASON SCHULZE](#)

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According to the 2010 U.S. Wind Industry Monitor, significant growth in the use of wind turbines in the United States is projected over the next several years. Indeed, the U.S. recently surpassed Germany as having the largest usable wind capacity in the world.

As capacity continues to grow and technology behind wind energy continues to improve, more and more insurance underwriters are taking steps to include at least some wind energy business in their portfolios, generally underwriting via dedicated energy units. Experts believe that underwriting opportunities in wind technology will remain a significant growth industry for the next 20 years.

From an underwriting standpoint, commonly available types of coverage include protection for those individuals responsible for the design, construction, erection, commissioning and testing of wind turbines, as well as coverage for all risks of loss including destruction or damage to the turbine or property where the turbine is erected.

Policies also exist for business interruption or loss of revenue should a wind turbine stop working, damage to turbines while in transit, and potential environmental cleanup costs associated with a wind turbine loss.

The expansion of onshore wind technology (as distinguished from offshore wind technology, which is an entirely different kind of animal) is not without some risk for wind energy underwriters. Wind energy technology relies primarily on wind turbines, and despite significant improvement in turbine engineering, fire-related hazards still exist. Accordingly, it is important for underwriters to not only understand the most common risks that a wind energy program presents from a first-party claim standpoint, but to also be cognizant of subrogation opportunities that may arise from such losses.

The wide variety of coverages available to wind programs is a direct reflection of the risks that wind programs present. Wind turbines are a key component of a successful wind program, and because of the complexity of wind turbines, which on average contain roughly 8,000 parts, it is common to experience first-party property damage claims while the turbines are in operation. From installation problems to start-up delays, there are several potential areas which can ultimately lead to first-party claims.

The most common first-party claim involves lightning damage to the turbine itself. More importantly though, lightning strikes can lead to significant fires in or around a turbine if the turbine's lightning protection system is not installed or maintained properly.



▶ **BECAUSE TYPICAL FIRST-PARTY CLAIMS** generally involve damage to a "standalone" wind turbine, it is tempting to dismiss recovery opportunities and attribute the loss to an "act of nature" or an unknown electrical failure.

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In addition to the risk of fire that lightning strikes present, improper installation or grounding of a turbine's electrical system can also present a fire hazard. Other common problems that may also present fire hazards include failure to adequately protect hot surfaces inside the turbines (e.g., the generator and gearbox mountings); work related to the repair, assembling and maintenance of the turbine (e.g., welding, cutting or soldering work); and build-up of internal combustible materials such as foam sound insulation or oil in the turbine gearbox or hydraulic system.

In reviewing a first-party claim involving a wind turbine, underwriters should consider and evaluate subrogation opportunities. For example, simply because a turbine was damaged by lightning does not mean that a viable subrogation opportunity does not exist. Turbines are generally equipped with sophisticated lightning protection systems and the adequacy or functionality of that system must be analyzed—especially considering that third parties are usually responsible for those tasks.

